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SUBJECT: DEPOSITS IN LATVIAN BANKS FALL IN OCTOBER

Ref: Riga 690

¶1. In a November 14th flash report on the performance of the Latvian banking sector in September/October, the Latvian financial supervisory authority, the Financial and Capital Markets Commission (FCMC), stated that deposits in October decreased by a considerable 4.6% or LVL 461 million (USD 819 million). Non-resident deposits decreased more than resident deposits, 5.7% and 3.6% respectively. The FCMC attributed the larger drop in non-resident deposits to the fact that most non-resident depositors are businesses and many of them would be feeling the effects of the global economic slowdown. The FCMC also reports that bank profits in the first 10 months of the year decreased by 28%. Liquidity in September fell, but still ranged between 37% - 57%. The capital adequacy ratio of Latvian banks at the end of September was 12.3%.

¶2. Comment: These numbers help explain some of what led to the government bailout of Parex Bank (reftel) and it will be important to see whether the November numbers show that the outflow has slowed. The report does not indicate whether the withdrawals were mainly from a few banks or spread equally across the system. But we can expect that the report will raise new questions about the health of other banks in Latvia. The FCMC's release of the numbers just prior to the four day Independence Day weekend is probably not an accident and designed to avoid a panicked reaction.

Larson